

Message Text

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ORIGIN ARA-10

INFO OCT-01 ISO-00 EB-07 L-03 TRSE-00 FEA-01 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01

H-02 INR-07 INT-05 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 /090 R

DRAFTED BY ARA-LA/EP: RWEBER

APPROVED BY ARA - AMBASSADOR HEWSON RYAN

EB/FSE - DHART

L - S.SCHWEBEL

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P 031949Z MAR 76

FM SECSTATE WASHDC

TO AMEMBASSY QUITO PRIORITY

C O N F I D E N T I A L STATE 051933

E.O. 11652: GDS

TAGS: ENRG, PFOR, PE

SUBJECT: MEETING WITH TEXACO-GULF

1. TEXACO-GULF OFFICIALS MET WITH AMBASSADOR RYAN AND DEPARTMENT OFFICERS ON MARCH 1. PARTICIPANTS ON THE TEXACO-GULF SIDE WERE PHILIP WYCHE, GULF V-P FOR LATIN AMERICA; GLEN LUCAS, GULF ATTORNEY; NESTOR ORTIZ, GULF WASHINGTON REPRESENTATIVE; BOB SHIELDS, TEXACO V-P FOR LATIN AMERICA; AND MCNEIL WATKINS, TEXACO ATTORNEY.

2. WYCHE AND SHIELDS PROVIDED BACKGROUND ON THEIR SITUATION IN ECUADOR GOING OVER MUCH OF THE INFORMATION ALREADY SHARED WITH EMBASSY. THE COMPANIES ARE CONVINCED THAT THE SITUATION IS DETERIORATING RAPIDLY FOR THEM IN ECUADOR AND THAT A SERIOUS CONFRONTATION IS IMMINENT.

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3. IN CONTRAST TO EARLIER CONFRONTATIONS WITH THE GOE, T-G OFFICIALS PERCEIVE THAT BECAUSE OF THE PRESENT INSTABILITY IN GOE LEADERSHIP, NATIONALIZATION OF THE COMPANY IS A REAL POSSIBILITY.

4. T-G EXECUTIVES BELIEVE MINISTER VARGAS IS EMBARKED

ON A POLICY OF HARASSMENT, PROBABLY WITH THE OBJECTIVE OF NATIONALIZATION. THEY ARE UNCERTAIN OF GENERAL DURAN'S ROLE, BUT ARE INCLINED TO REGARD HIM AS WORKING CLOSELY WITH VARGAS.

5. ONE ACTION WHICH ILLUSTRATES THEIR VIEW IS THAT VARGAS IS HARASSING THEM ON THE QUESTION OF THE NORSUL-PHOENIX OVERRIDE PAYMENT. THE MINISTRY HAD DECREED THAT THE COMPANIES OWE INTEREST PAYMENTS ON THE RETROACTIVE AMOUNT OF THE 86 PERCENT TAX ON THE NORSUL/PHOENIX OVERRIDE AND HAS DIRECTED THE CENTRAL BANK TO DEDUCT THE RETROACTIVE INTEREST PAYMENTS FROM THE T-G RETENTION ACCOUNT. THIS COMBINED WITH THE GENERALLY SLOW AND UNSATISFACTORY RELEASE OF FUNDS FROM THE RETENTION ACCOUNT HAS CONVINCED T-G THAT THEY HAVE TO MAKE A STAND. TEXACO, THEREFORE, DID NOT MAKE THE SCHEDULED PAYMENT INTO THE RETENTION ACCOUNT ON FEBRUARY 25. GULF WILL WITHHOLD ITS NEXT SCHEDULED PAYMENT ON MARCH 3. THEY ARE AWARE THAT THE WITHHOLDING OF PAYMENTS WILL ENSURE THAT THE CRISIS PROMPTLY BECOMES ACUTE.

6. THE COMPANY REPRESENTATIVES SAID THAT THEY HAD NOT YET DECIDED ON THEIR NEXT STEP. THEY CLAIM THAT EVEN SHOULD THE GOE BACK DOWN ON THE NORSUL/PHOENIX RETENTION ISSUE, IT WOULD NOT BE POSSIBLE FOR THEM TO LIMP ALONG AT THE PRESENT PRICE. GULF CLAIMS TO BE LOSING MONEY ON EACH BARREL OF OIL THEY SHIP. IN ORDER TO OPERATE THE FIELD AT AN OPTIMAL LEVEL, CARRY OUT NECESSARY INVESTMENTS AND REALIZE A REASONABLE PROFIT (14-15 PERCENT), THEY SAID THEY WOULD NEED A MARGIN OF \$1.50 BETWEEN SALE PRICE AND GOE TAKE.

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7. THE COMPANY REPRESENTATIVES SAID THAT THEY THOUGHT QUOTE THE BALL WAS IN THE GOE COURT UNQUOTE AS A RESULT OF THEIR RECENT PRESENTATIONS IN QUITO. ALTHOUGH THEY HAVE APPARENTLY NOT YET DECIDED ON THEIR NEXT STEP THEY WERE NOT ENTHUSIASTIC ABOUT MAKING A WRITTEN BUY-OUT OFFER ALONG THE LINES REQUESTED BY VARGAS AND DURAN. RATHER THEY SEEM TO BE CONSIDERING A LETTER TO THE CONSEJO SUPREMO SETTING

FORTH THE WHOLE RANGE OF THEIR PROBLEMS AS A BASIS OF
FURTHER DISCUSSIONS ABOUT FUTURE ARRANGEMENTS.

8. THE T-G EXECUTIVES DID NOT ASK FOR ANY SPECIFIC
ACTION FROM THE USG. THEY PROMISED TO KEEP US INFORMED
AND TO ADVISE EMBASSY QUITO BEFORE TAKING FURTHER STEPS
WITH THE GOVERNMENT. KISSINGER

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